CPA 104 SMA

Aim of Strategic Management Accounting:

MODULE 1

Management accounting: supporting the value creation process.
The development of contemporary management accounting and the key factors that have led to the changing focus

- Compare and contrast traditional and contemporary management accounting.
Accounting provide useful information for decisions.
1) External reporting – income state, bal sheet, cash-flow stat, notes to accounts auditor's report (historical)
2) Internal reporting.- budgets and forecast, performance indicators, costings, combining industry data with internal numbers (future oriented).

Traditional definition = within the provision of useful info to support management = don't describe how info are collected, analysed and provided, don't describe what specific information management regard as useful.

Contemporary definition – investigate 1) key tasks that management perform (including the decisions they make),
2) the info they require
3) how to capture analyse and transform organizational data into appropriate info and knowledge.

-The development of contemporary management accounting and the key factors that have led to the changing focus.

Stage 1) prior to 1950: technical activity. Focus on costs and providing financial control through cost accounting and budgeting.

Stage 2) 1950 up to 1965: change to management activity. Create and present info for planning for control. Development of responsibility accounting.

Stage 3: 1965 up to 1985: focus on increasing the efficiency of business processes to reduce and eliminate wasted resources through reduced cost of technology and availability of real-time info.

Stage 4: 1985 to present: create value. Understand cause and drivers of customer value and shareholder value, effective use of technology.
Not only provide info, improve strategic and operational decision-making and resource allocation.

p. 1.7 Heywood 1998 – management accountants = record, report info, internal business adviser.
Value added = stronger non-financial performance evaluation, ensure compliance with external regulations and give 'reality check' for business proposals.

Factors driving change
External – changing world economic structures, the effects of globalization and
increased competition, rapidly developing technology, increasing focus on
corporate governance and a broader stakeholder perspective of corporate accountability.

Internal – changing structure of organizations (less hierarchical and more decentralized in their decision-making)

CAD: computer-aided design – use of software to prepare drawings, specifications, parts lists and other design-related elements; simulate situations…reduce production time

Internally focused balance scorecard approach to performance measurement (as opposed to variants of Economic Value Add (EVA), a single economic measure of business performance) and externally focused triple bottom line reporting.

Section 404 of Sarbanes – Oxley Act – letter from both senior management and the outside auditors which assess the organization's internal control systems. = procedures that ensure a company's assets, liabilities and transactions are properly reflected in its financial statements.

p. 1.12 IBM 2004, Walker 2004a – outsourced activities. Franchising relationship.
IBM 2004, global CEO study, a key finding was the need for organizations to be responsive.
Growing need for leadership, increased skills within organizations, increased focus on people.
Increased need for innovation, flexibility, leadership and effective strategy has heightened the need for accurate and timely information.
A renewed focus on top line (revenue) growth after many years of focusing on cost reductions.
Australia and New Zealand – indicate they were in mature markets requiring product innovation and differentiation to achieve growth. Require improved utilization of resources while dealing with the difficulty of increased levels of competition
Asia-Pacific – translate growth areas into profitable growth, as growth without value is often pursued to the detriment of an organization.

p. 1.13 Johnson & Kaplan 1987 – Relevance Lost: The Rise and Fall of Management Accounting – management accountants were facing an identity crisis as they no longer knew their role, seemed incapable of supporting management and were struggling to justify their existence.
Causes of this irrelevance:
+ The purpose of costing moved from a focus of generating information for organizational management to an external financial reporting focus. This information is often not suitable or useable for internal decision-making purposes.
+ Cost behaviors = move towards greater levels of fixed capital investment costs and reduced labor costs, making traditional cost allocation systems dangerously inaccurate.
+ The speed of contemporary business environment rendered most monthly management accounting reports obsolete before they were even prepared.

The problem is heightened by the competitive environment where organizations desperately need timely and accurate information to support management of quality, inventory, information systems, high-technology infrastructure and shorter product life cycles.

To achieve relevance:
The role of management accounting has expanded to include a focus on helping managers solve problems and improve their competitive position.
E.g. product life-cycle costing, customer account profitability analysis, and prepare balanced scorecards.
This is coupled with technological advances that enable electronic data capture and automatic system updates, and provide accountants the opportunity to focus on non-routine and strategic decisions.

Strategic management accounting = focus on organization's external environment (competitors, customers and suppliers, and gaining an appreciation for the greater economic environment (including political, social and environmental factors), an organization is able to respond more quickly to change.

For the purpose of this segment, definition of strategic management accounting = creating value by supporting the formation, selection, implementation and evaluation of organizational strategy with effective resource allocation and
information that captures financial and non-financial perspectives of both the internal and external environment.

****Discuss the role of a management accountant in the organization and how the role adds value to the organization.****

The primary focus of this segment is on generating customer value through improving activities in the organizational value chain.
This, in turn, is expected to generate shareholder value for private sector organizations due to increased profitability and growth.

p. 1.15 Kerin 2004 – less than half of Australia's top 150 companies grow at a faster rate than their industries, and of those that do, nearly half destroy shareholder value in the process. = cannot maintain shareholder value.

- Organizational benefits derived from management accounting techniques that provide meaningful analysis, interpretation and planning opportunities.
- Apply traditional management accounting techniques to support management decision-making, including budgeting, variance analysis, product costing and cost-volume-profit analysis.

The strategic process: address key issues = what is the vision, mission or purpose of an organization, setting specific objectives, and creating and implementing the strategies to achieve these objectives.

Table 1.2 on page p. 1.16 = how accounting supports strategic tasks

+ Strategic thinking – provide info that directs management attention to strategic issues.
E.g. reduction in profit, loss of a major contract, project implementation failure or a major external change to competitive forces in the industry.

+ External analysis – estimate competitor costs and capital investment projects.
Conduct industry life-cycle growth and profitability analysis, and obtain supplier and customer intelligence to identify their bargaining strengths.

+ Internal analysis – balanced scorecard results, product life-cycle costing, market share, product profitability, activity evaluation and costing, creating and reporting on financial and non-financial (quality, time, innovation,
customer satisfaction) performance measures, and customer profitability analysis.

+ Strategic choice – evaluate and rank the feasibility and profitability of strategies, considering both capital budgeting (discounted cash-flow measures) and strategic costs / benefits.

+ Strategic implementation – provide accurate and timely costing as well as financial and non-financial performance results during the implementation process.

+ Strategic review – provide accurate key performance indicators that measure the success achieved by the strategy. Review the effectiveness = accurate estimates and costing, and the appropriate use of performance measures and incentives.

Table 1.3 on page 1.17 = how accounting supports general operational management tasks.

+ Planning - budgets and forecasts, costing systems and historical data.

+ Evaluating – benchmarking – collect, analyze, classify, record and report on financial and non-financial information

+ Controlling – identifying causes of variance analysis, establishing performance incentives and criteria, reconciliations, internal controls.

+ Communicating – budgets communicate organizational priorities and provide information to employees about what they are expected to achieve.

+ Coordinating – collating budgets allows coordination between departments / functions such as sales, productions and logistics.

+ Rewarding – individual, departmental, team or organizational performance is measured and reported as a basis for incentives and rewards

+ Decision-making – providing costing and other information as demanded to support routine and non-routine decisions.

The Australian public sector refers to all organizations owned or controlled by any of the four levels of government (Commonwealth, state, local and multijurisdictional) within the Australian political system.

p.1.19 Federal Department of Employment and Workplace Relations (DEWR)

The Australian public sector - shift towards performance evaluations based on the outcomes of full accrual reporting, performance budgeting, output budgeting and outcome management (where outputs are goods and services produced by government agentcies and outcomes are the effects that outputs have on a community).
This focus leads to the need for a large number of non-financial performance measures. The increased number of competitive tendering and private-public partnerships (PPPs) also increases the need for accurate accounting information.

for assessing performance, management accounting can help establish metrics for measuring:
- Economy – the extent to which resources of a given quality were acquired at lowest cost.
- Efficiency – the maximization of outputs for a given set of inputs; and
- Effectiveness – the extent to which an entity achieved its objectives.

- The critical role of management accounting systems in the value chain and business cycle

- ****Describe the role of the management accountant within an organization****
Part C: The role of the management accounting system

Figure 1.4 on page 1.22 Management accounting system (MAS) in the management information system (MIS)

p. 1.22 English (1988) – management accounting system has to track, support and encourage the value adding activities of the organization.
p. 1.22 Gelinas & Sutton 2002 – MIS is an integrated system that combines key areas, including sales/marketing, production, accounting, human resources,logistics and other components of an entity.
p. 1.23 Sharma 1998 – accountants need to understand procurement and logistics, human resource management, financial management, knowledge management and information technology.
Also understand
+ performance management (benchmarking, developing KPIs, and measuring and managing shareholder and customer value creation),
+ asset management (working capital management, capital expenditure decisions and appraisal, product-life-cycle management and asset registers),
+ business control management (corporate governance and internal control frameworks),
+ environmental management (balanced scorecard and triple bottom line accounting, costing to support evaluation and implementing of environmental strategies),

+ financial management (activity-based costing and activity management, and measuring and measuring risk),
+ intellectual capital management (measuring and managing customer and employee satisfaction and levels of IT literacy, and maintaining strict controls on intellectual property such as patents and licenses),
+ information management (ensuring data security and controls. Implementing and generating value from e-commerce and EDI, and using IT to support 'just in time',
+ quality management (performance measures and costing to implement and manage TQM).

Management accounting systems should clearly distinguish between two types of information:

+ strategic profitability (costing) information - relates to the strategic variables that create value for an organization. This requires identifying what each product or service contributes to profitability over the long term.
+ process control information - generating relevant information for controlling operational processes. Info from acc sys + non-fin. info from other organizational sys eg. human resources sys and distribution sys (English 1988).
This component must also provide a control feature that can protect assets, document transactions and provide a reliable source of verification.

p. 1.24 Gelinas Sutton 2002 - MAS - accounting control - to minimise or prevent fraud and theft of assets, unacceptable accounting methods, inaccurate data entry and records, compliance with external regulations and to avoid the loss or
destruction of valuable assets including information.

To prevent internal control failure:
+ separation of employee duties
+ independent verification of important employee activities - reduce internal control problems: fraud, increase chance of detecting problems
+ effective security measures to protect valuable assets - reduce fraud, accidents and mishaps that cause damage to assets ro injury to employees
+ effective document design and handling - allow examination of past events.
+ cash control measures including performing reconciliations = requiring several signatures on cheques, banking all cash daily or only using cheques and EFT(electronic funds transfers)

Problems with MAS - failure to provide info that addresses or solves problems (and if info is produced, it is often not in a timely manner)
- if the MAS is designed on a departmental basis it may be very difficult to evaluate processes, products or services that flow through different departments.
- ERP enterprise resource planning allows for the development of acitivity-based management accounting systems. But, the cost of these packages and implementation difficulties often leads to less advantage than is promised.

- *****Describe the role of the management accountant within an organization*****

Part D: The emerging role of the management accountant

Traditional role = costing, variance analysis, budgeting, reconciliations, maintaining fixed asset registers, accounts receivables and accounts payable management, and measuring and reporting on key performance indicators.

Strategic role :

p. 1.27 Ernst & Young and IMA 2003 – management accountants are strategic business partners + traditional cost management services – top priority: cost management, contribute to core strategy, improve reporting processes and setting
performance standards. Obstacles include the significant distortions that overhead allocations cause and greater product diversity.

p. 1.27 Cooper 2002 – risk management for both management and accountants
p. 1.27 Corrigan 1996 – accountant = info sys design, control and maintenance task, understand organizational products and operational processes, manage and implement new strategies and sys.
p.1.27-28 Corrigan 1997 Accountants must provide a value-added service in areas such as strategic business planning, customer profitability management, revenue generation strategies, cost management, info management, competitive
intelligence, forecasting, decision analysis, productivity improvements and cash-flow maximization.

p. 1.28 Simister, M 2004 – 'Splitting the CFO's role makes business sense'
Opposition = accountant's independence reduced as they become heavily involved in strategic initiatives and contribute to wealth creation.
= as more time is devoted towards wealth generation and value-adding activities, the time available to spend on compliance issues is reduced.
= one focused on value enhancement and wealth creation, and a second role focused on compliance.

p. 1.28 Heathcote 2004 – accountants must have detailed knowledge of the specific business and industry.
p. 1.28 Walters 2004a – accountants become a part of the leadership team that focuses on performance, strategy and controls. Let info sys produce the numbers while they produce the interpretations.

- ****Challenges faced by management accountants

= communicating with stake holders, information management and policy management.

Key challenges – managing resources, promoting innovation and the effective use of technology and knowledge management while enabling others to effectively use accounting systems.

p. 1.28 Corrigan 1996 - Attempting to shift senior management focus from financial accounting and auditing (e.g. IFRS implementation and corporate governance compliance) towards using accounting for improving performance is
necessary, and all the while accountants are faced with competition from other info providers, eg. Engineers and consultants.

Technology
p.1.28 Gelinas & Sutton 2002 – key technological challenges and opportunities
= ensure info security and controls while promoting and developing e-business.
Maintaining records and audit trails for data verification in the computerized environment. Effective implementation of major info sys. projects.

Managing resources
Cash flow management and supply-chain management, use of sophisticated and scheduling tools, achieving large reductions in inventory levels and maintain effective links with suppliers.
p. 1.29 Carlin 2004 – improve in the areas of recognizing, developing and managing intangible assets – knowledge.
p. 1.29 James 2004 – 50% large Australian organizations – intangibles.Innovation
= outcome (ie a new product or service), process (combination of decisions, structures, resources and skills that produce outputs and outcomes)
p. 1.29 Dodgson 2004 – constant innovation is required to provide sustainable competitive advantage.
p. 1.29 Gome, Amanda 2004 – innovation in 100 fastest growing organization in Australia. Without innovation, nearly 80% failed to grow and nearly all believed innovation kept them ahead of their competitors. Among the 100 companies - spend 6% of revenue on R&D, with a focus on product development, 25% use process innovation to improve performance.
p. 1.29 Walker 2004b – accountants are required to integrate market research info into their sys and analysis, and support development of strong relationships with customers and suppliers to develop ideas and solve problems.

Skills
p. 1.30 Walters 2004b – accountants need soft skills – presentation and communication skills, ability to speak and give presentations, write reports, and send appropriate emails and letters

p. 1.30 ASCPA 1995&1997 management accountants = communication, staff management and computer support skills
p. 1.30 Lowry & Yap 1997 – technical skills (spreadsheet manipulation, general ledger processing, control of payables and receivables, managing computer systems, flexible budget variance analysis and payroll control.
p. 1.30 Cooper 2002 – diversification of skills – non-financial performance measurement and general management skills

traditional management accounting techniques
RAS – Responsibility Accounting System.
Collects revenues and costs, measure the performance of these responsibility centres. Cost centres (control and reduce cost), revenue centres (increase revenues), profit centres (control cost and increase revenues simultaneously), investment centres (control cost, increase revenue, effective investing, use assets appropriately and efficiently)

p. 4 Ferguson, A 2004 – BHP Billiton – creation of customer service groups:

profit centres.
- One. Tel – inappropriate use of revenue centres. Insufficient cash collections, large amount of bad debts due to inadequate billing systems and the acceptance of customers with poor credit ratings.

p. 5 Andrews, B 2003 – when a project turns sour, manager spend more money on the project – this approach to sunk cost is hazardous and may lead to further losses.

- Nobel prize winning Daniel Kahneman and Amos Tversky demonstrates that people will take greater risks to make up for losses. One danger is managers becoming too attached to projects, and having some senior staff rotation may be beneficial. These staff may be able to make tougher decisions as they have fewer
biases towards the project.

p. 6 Simsion, G.C. & Eames, R..J. 1996
– accounts receivable was held responsible.
- A major factor causing this was the sales department offering excessive credit terms and conditions to customers.
- Either give AR manager control of setting credit terms with customers, or not holding the AR manager responsible for debtor days.

Cost concepts

+ cost-volume-profit (CVP) analysis

Contribution margin (CM) = total revenue – total variable cost i.e. (Tot Rev - Tot VC)
Contribution margin per unit (CMU) = sales price per unit – variable cost per unit i.e. (Unit SP - Unit VC)
Contribution margin ratio (CMR) = CMU / sales price
Break-even point in units (BPU) = fixed costs / CMU
Break-even point in dollars (BP$) = fixed costs / CMR
Estimated profit = (unit sales x CMU) – fixed costs or (unit sales – BPU) x CMU
To achieve a specific profit = (fixed costs + desire profit) / CMU

+ product costing

Traditional product costing =
1) resources are obtained
Dr Direct materials
Dr Direct labour
Dr Manufacturing overhead
Cr cash / accounts payable

2) resources are used in the production process
Dr Work in progress
Cr Direct materials
Cr Direct labour
Cr Manufacturing overhead

3) the production process is completed and there are finished goods
Dr Finished goods
Cr Work in process
4) the finished goods are sold
Dr COGS
Cr Finished goods
Dr Cash / accounts receivable
Cr Sales

2 useful methods for costing =

- Individual job costing (for larger, specific tasks); and
Dr Work in process (WIP) 75,000
Cr Direct materials 35,000
Cr Direct labour 30,000
Cr Manufacturing overhead 10,000
Control accounts
Job # Direct materials Direct labour Manufacturing overhead
Total
1 10,000 12,000 4,000 26,000
2 15,000 15,000 5,000 35,000
3 10,000 3,000 1,000 14,000
Total 35,000 30,000 10,000 75,000

- Process costing for when large amounts of a similar (homogenous) product or service are produced.
Dr WIP – department 1
Cr Direct materials
Cr Direct labour

Cr Manufacturing overhead
Dr WIP – department 2
Cr WIP – department 1
Cr Direct labour
Cr Manufacturing overhead

Overhead allocation
1) Collect or estimate all relevant overhead costs (=cost pool – more than one).
2) Select an allocation base for each cost pool.
3) Collect or estimate the total quantity of the cost allocation base.
4) Determine the allocation rate by dividing the cost pool by the total quantity.
5) Allocate overhead costs to a particular job or process based on this rate.

Techniques to allocate overhead require that an allocation base be determined.
E.g. percentage of direct labour hours, direct labour dollars, machine hours, direct materials dollars.

Short-term budgeting
1) Sales budgets = forecast sales (units) x unit sale price = revenue
External; factors e.g. market demand at different price levels and internal
factors e.g. production and storage capacity
2) Production budget
Forecast sales
+ Finished goods inventory required at the end of the period
+ Finished goods inventory from the start of the period
3) Direct labour budget
Production requirements
x Direct labour hours
x Direct labour cost per hour
= Total direct labour cost
4) Raw materials (RM) purchase and usage budget
Production requirements
x Volume of RM required per unit of production + RM inventory required at the end of the period- RM inventory from the start of the period
= RM purchases volume
x RM cost
= RM cost
5) Cash budget
Starting cash balance + Cash inflowsFrom operations From investing Sales of non-current assets From financing Borrowings Equity issued- Cash outflows
From operations
Raw material purchases
Direct labour
Variable and fixed overhead
Selling and administration
From investing

Purchases of non-current assets
Asset refurbishments
From financing
Interest payments
Dividend payments
Principal repayments
Closing cash balance

Variance analysis
Difference between the actual costs and quantity usage (of direct materials, labour and overhead) and the amount budgeted for at the start of the period.
Difference between consumption of resources that should be incurred for a 'given level of activity' as compared to what is actually consumed.

Direct materials:
- cost variance: quantity purchased x (standard price – actual price)
- volume variance: standard price x (standard quantity expected – actual quantity used)
Direct labour
- cost variance: hours worked x (standard hourly rate – actual hourly rate)
- volume variance: standard hourly rate x (standard hours expected – actual hours used)
Fixed overhead (FOH)
- Actual FOH – standard FOH
Variable overhead (VOH)
- cost variance: actual VOH cost – estimated standard VOH for the quantity produced
- volume variance: depend on allocation base: direct labour volume variance x VOH application rate.

Working capital management
- accounts receivable, accounts payable, cash, inventory
p. 16 Mitchell, S 2003 – inventory turnover be measured in hours instead of days.

Evaluating short-term liquidity
- working capital: current assets – current liabilities
- working capital ratio: current assets / current liabilities
- quick asset ratio: (current assets – inventory) / (current liabilities – bank overdraft)

Evaluating efficiency
- Accounts receivable (AR) turnover: credit sales (@ total sales) / accounts receivable
- Average collection of AR in days: 365 / AR turnover
- Accounts payable (AP) turnover: costs of goods sold / accounts payable

- Average payment of AP in days: 365 / AP turnover
- Inventory turnover: cost of goods sold / inventory
- Average inventory days on hand: 365 / inventory turnover
- Asset turnover: total sales / total assets

Accounts receivable management
- detailed credit policy and following up slower paying customers,
- have a disciplined approach to receiving funds, recording all details and ensuring invoices are sent and the system updated.
- Offer discounts for early payments and factoring (selling your accounts receivable to a third party)

Accounts payable management
- efficient payments to creditors is essential to maintain strong relationships, and requires an organized process and an appropriate amount of cash
- take advantage of discounts
- (1 + D / P) 365/d - 1
D = dollar saving from taking the discount
P = amount to be paid if you take advantage of the discount
d = number of days within which to pay the discount

Cash management
- To have effective cash management controls, requires the use of appropriate internal control procedures, including the separation of duties and bank reconciliations.

Inventory management
- control (knowing where it is, what has been transported etc.)
- managing the costs of inventory
- EOQ = $\sqrt{2aD/c}$
a = acquisition cost per order placed (include price paid, ordering costs and
consideration of possible discounts for larger quantity orders)
D = demand over a period of time
c = carrying cost per unit

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MODULE 2

Creating organizational value.
The techniques for implementing and monitoring strategies, the impacts of strategic management on the business cycle, how the value chain can create organizational efficiencies.

p. 2.8 Coase (1937) – business organizations exist because they offer an efficient way of organizing transactions (simple transaction and low transaction cost).

- Explain how organizations create and manage value

the role of transaction costs in this process

E.g. transaction cost – collecting info about competing products or services prior to purchase, negotiating a purchase with the seller (contracting costs), financing a purchase.

Transaction cost: 1990 – 1950 – now = 15% - 50% - 75%

Agency theory – level of transaction cost = influenced by the cost of gathering information about potential agents, the cost of selecting the agent, the cost of writing contracts, the incentives paid to the agent, and the cost of monitoring the performance of the agent.
Professional associations (Like CPA Australia) and unions exist to reduce transaction costs for employers by certifying the competence and trustworthiness of potential employees.
Products Services
Private (for profit) Mining, agriculture, manufacturing, retailing, construction Lawyers, accountants, banks / financial services, engineering design
Public or not for profit Public housing Health care, welfare, defence, sporting clubs, education

The input-transformation-output model
Inputs:
Raw form (e.g. agricultural products, timber or minerals)
Physical form (e.g. property, plant and equipment)
Human form (e.g. labour and managerial skills)
Legal property-rights form (e.g. patents, trademarks and brand names)
Intangible form (e.g. intellectual capital or knowledge)

Measuring input-transformation-output
Inputs or procurement activities: cost of materials and supplies
Transformation activities: cost of labour, plant and equipment used to manufacture the organization's products
Outputs: cost of marketing, distribution and after-sale service activities

p. 2.11 Porter 1985 – values is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits, for providing unique benefits that more than offset a higher price.

p. 2.12 Kaplan and Norton 1992 – believe that shareholder value can only be created by first creating customer value. A company's ability to innovate, improve and learn is directly linked to the company's value. That is, only through the ability to launch new products, create more value for customers, and
continually improve operating efficiency can a company penetrate new markets and increase revenues and margins – in short, grow, and thereby increase shareholder value.

Balanced scorecard
= innovation, learning and growth perspective
= internal business process perspective (transformation of inputs into outputs)
= customer perspective (delivering the right outputs)
= financial and shareholder perspective (achieving profitable results)

-***** Describe the organizational and industry value chains*****

ORGANIZATIONAL VALUE CHAIN

p. 2.13 Porter 1985 – describes the sequence (or network) of activities that comprise an input-transformation-output process as a value chain.

p.2.14 Porter 1985, Viljoen & Dann 2000 – manufacturing organization value chain

DIRECT ACTIVITIES
= adding value to inputs
1) Primary activities
a) inbound logistics: locating, ordering, receiving, handling, storing and controlling the inputs to the production system
b) operations: convert resources into a final product. Production activities in the factory.
c) outbound logistics: product storage and distribution to customers. Testing, packaging, warehousing and delivery.
d) marketing and sales: inform customers about the product, persuade them to buy and enabling them to do so. Advertising, promotion, sales order processing and customer account management.
e) after-sale service: increase value of the product in the hands of the customer. Product installation, product upgrades, repair and maintenance, spare parts supply

INDIRECT ACTIVITIES = enable direct activities to be performed (e.g. plant and equipment maintenance and sales administration.
2) Supporting activities
a) procurement: get capital inputs to the primary activities. Purchase of plant, parts and equipment. Raw materials are procured by the purchasing department. Information technology software and hardware are procured by the IT department.
Machinery is procured by production department managers.
b) technology development: ensure that each primary activity has the correct level of technological support. Product design and manufacturing process improvement.
c) human resource management: ensure the right people, with the right skills, abilities and motivation are made available to each of the primary activities. Recruitment, training, development and rewarding of people.
d) firm infrastructure: systems: ensure that efficient and effective information management, reporting, planning and control systems operate within and between each primary activity. Porter believes planning, finance and quality control
activities are crucially important to the performance of an organization's primary activities.
e) firm infrastructure: marketing: focus the attention of managers and employees on what the organization has to do to develop and sell a competitive product or service. Longer-term perspective.

QUALITY ASSURANCE ACTIVITIES
= e.g. inspect work in progress or fully finished inventories, review of an activity (e.g. procurement) or business function (e.g. administration), auditing (e.g. quality of accounting records and managerial reports)

INDUSTRY VALUE CHAIN
1) Raw materials
2) Primary manufacturing
3) Fabrication
4) Product producer
5) Distributor
6) Retailer
Automobile industry
1) mining company extracts iron ore from a mineral deposit to get steel.
2) Iron ore is processed into steel.
3) Manufacture car body panels, from the steel
4) Assembly of cars.
5) Distribution of cars to dealers

6) Retail sales
7) After-sales service: extended-warranty care programs are provided by other organizations.

Vertical integration – upstream integration: move towards the beginning of the industry value chain, towards the production of raw materials.
- downstream integration: move towards the end-use customer.

p. 2.17 & reading 2.1 John Shank & Vijay Govindarajan 1992 – paper products
industry value chain
Traditional management accounting Value chain analysis
Focus Internal External
Perspective Value-added Entire set of linked activities from suppliers to end-use customers
Cost driver concept Single driver (volume)

Application at the overall firm level (cost-volume-profit analysis) Multiple cost drivers

- structural drivers (e.g. scale, scope, experience, technology, and complexity)
- executional drivers (e.g. participative management, total quality management, and plant layout) a set of unique cost drivers for each value activity
Cost containment philosophy 'Across the board' cost reductions View cost
containment as a function of the cost driver(s) regulating each value activity.
Exploit linkages with suppliers
Exploit linkages with customers
'spend to save'
Insights for strategic decisions None. Always discard conventional reports when begin cost analyses Identify cost drivers at the individual activity level, and develop cost / differentiation advantage (control drivers)
For each value activity, ask:
+ make vs buy
+ forward / backward integration
Quantify and assess 'supplier power' and 'buyer power' and exploit linkages with suppliers and buyers

Strategic cost management – Michael Porter's value chain – i.e. the liked set of value-creating activities. Focus on external to the firm. Starts too late and stops too soon.
Traditional management accounting – focus on internal: purchases, processes, functions, products and customers.
Value-added analysis: starts with payments to suppliers (purchases) and stops with charges to customers (sales).
Porter – develop a sustainable competitive advantage:

Low-cost strategy:
through economies of scale in production, experience curve effects, tight cost control, cost minimization (in R&D, service, sales force or advertising)
e.g. Texas instruments in consumer electronics, Emerson Electric in electric motors, Hyundai in automobiles, Briggs and Stratton in gasoline engines, Black and Decker in machine tools, Commodore in business machines, K-Mart in
retailing, BIC in pens and Timex in wrist watches.

Differentiation strategy:
product uniqueness: brand loyalty (Coca-cola in soft drinks), superior customer service (IBM in computers), dealer network (Caterpillar Tractors in construction equipment),

product design and product features (Hewlett-Packard in electronics), or technology (Coleman in camping equipment)
e.g. Mercedes Benz in automobiles, Stouffer's in frozen foods, Neiman Marcus in retailing, Cross in pens, and Rolex in wrist watches.

p. 2.18 Howarth, Gillin & Bailey 1995
Alliance = a co-operative arrangement between two or more organizations that forms part of, and is consistent with, their overall strategy, and contributes to the achievement of their major goals and objectives
= vertical integration that does not involve a transfer of ownership rights (a takeover)

Strategic alliances can be based on service-level agreements, customer affinity programs, purchaser-supplier collaborations or joint ventures.
An alliance is able to reduce overall transaction costs (the costs of negotiating and enforcing the terms and conditions of various contracts) and so creates extra value for the members of the alliance.
Alliances are valuable because they provide members with access to broader markets and resources.

Management accounting and value analysis
p. 2.19 Porter 1985 – the emergence of value chain management demands that accountants become familiar with the concept, and provide information to enable an organization to understand and manage its value chain in order to establish a coherent strategic position.

p.2.19 Shank and Govindarajan 1992 organization calculate value added as overall business unit revenues less expenses. Too internally focused. Starts too late and finishes too early.
p. 2.19 Munday 1992 - management accountants must move beyond the traditional focus of cost accounting (providing information for internal decision makers) and consider how cost reductions can be achieved in all segments of their industry value chain.
p. 2.20 Mecimore and Bell 1995 - believe that activity-based costing systems should be used to support value chain analysis and to enhance an organization's competitive strategy.
p. 2.20 Morrow & Ashworth 1994 - ABC is also useful in managing the costs of activities through its identification of the drivers of these costs.
p. 2.20 Bromwich and Bhimani 1994 - suggest that as producer's suppliers and assemblers become increasingly integrated within an industry's value chain, management accountants need to look at introducing altered forms of
organizational control and more suitable management accounting techniques.

p. 2.20 Hope and Hope 1995 - argue that traditional vertical management structures and AISs must be replaced with information systems that flow horizontally from suppliers through to customers.
Horizontal systems provide managers with a new framework for measuring the real performance of the business.
Strategy, satisfaction, quality, work, innovation and time rarely appear in the accountant's vocabulary, but they must now be added.

p. 2.24 Porter 1985 - sustainable competitive advantage

p. 2.24 Johnson and Scholes 2002 suggest that strategic management will:
- establish the scope of the organization's activities
- match the organization's activities to the environment in which it operates
- match the organization's activities to its resource capabilities
- reallocate resources
- affect operational decisions by triggering a chain of lower-level decisions
- be affected by the values and expectations of senior managers and by the views of other key stakeholders

- affect the long-term direction of the organization
- be complex in nature.

p. 2.26 Pfeffer & Salancik 1978 - the greater and more unique the organization's value-adding activities, the greater the reliance other parties are likely to place on the organization, and the stronger the organization's position becomes in the value chain.

Useful tools that support SWOT analysis:
Internal analysis
1) Product life-cycle analysis
product-related risks = variable sales volumes and prices, future investment requirements and obsolescence.
- Introduction
- Growth
- Maturity
- Decline

BCG market growth / share matrix
p. 2.29 Bruce Henderson – founder of the Boston Consulting Group develop a 2x2 matrix for analysis of products.
Relative market share (internal)– easy to gain in growth markets
– stronger = able to control its profits

Rate of market growth (external) – need significant investment of cash
High = fast growing
Star = hope to become cash cows = leader, if not will become a dog.
? = problem child = do not generate much cash; consume large net cash – potential to gain market share and become a star, and eventually a cash cow when the market growth slows.
If it doesn't become a leader, it becomes a dog when the market growth declines
Low = slow growing
Cash cow = staid & boring, mature market = milked continuously with as little investment as possible since such investment would be wasted in an industry with low growth.
Dog = mature, slow-growing industry = 'break even' – generating barely enough cash to maintain the business's market share = should be sold off

External analysis
p. 2.30 Porter 1985, 2006 – the strategic environment of an industry is shaped by five forces:
1. The threat of new competitors or entrants to the industry

May result in significant realignment of the competitive positions of existing organizations in that industry.
E.g.
- More production capacity and product volume will be added (i.e. customers have an alternative source of supply). Economics tells us that when supply increases, prices will fall.
- The new entrant seeks to build its market share by dropping the price below the prevailing market price, and a failure to follow suit will result in lost market share.
- The cost of production inputs rise as the new entrant seeks to secure access to scarce resources (e.g. skilled manufacturing labour may become more expensive).

Not all industries are susceptible to the threat of new entrants. Barriers to entry:
- Legal constraints in limited licences (e.g. television, radio or telecommunication industries) and patents
- Technological barriers – secret and innovative production processes (e.g. pharmaceuticals)
- Rivals – unable to get sufficient financial resources to fund the necessary investment in that industry (e.g. new technology industries)
- Economies of scale barriers – enable existing industry members to increase production output and decrease average unit costs to a level that a potential competitor cannot match in the short term. Exiting organizations had attained a
high level of operational efficiency that cannot be matched by a new entrant.
- Brand reputation barriers – established industry members have a strong profile in the market and high customer loyalty.
Awareness of the magnitude of the barrier to entry aids the managers of an existing organization in determining the upper price limit it can set for its products.

2. Existing competitors
Must have a sound understanding of where its existing competitors fit within the market and the nature of competitors' product/market portfolios.
E.g.
- if competitor has a very narrow market portfolio (i.e. focusing on only one market area) and shows no intention of diversifying its activities away from this area, the competitor's response to a threat to its market will be both
prompt and aggressive.
- if competitor has a broad market portfolio and a relatively insignificant product or market area is under threat, the competitor's response to the threat may be less aggressive.
Price discounting wars in the commercial aviation and tobacco industries.

3. The threat of substitute productsMargarine (product of edible-oils industry) – butter (product of dairy industry)Automobile manufacturers – other car manufacturers

4. The power of customers
If too powerful = not good= com's strategic position is weakened = customer can buy large quantities, can switch to alternative products or suppliers at little incremental cost.
American retailer Wal-Mart – suppliers complain about continual price reductions forced upon them.
Toyota – hold equity stake in its supplier – want to control price and quality of components and parts it use.
Steel industry – supplier: BHP and Rio Tinto – customers are forced to buy at a high price from them.

5. The power of suppliers

Regulation

Corporate social responsibility
p. 2.33 Porter and Kramer 2006 - introduce framework that organization can use
to:
- identify the social consequences of their actions
- discover opportunities to benefit both society and themselves (strategic linkages)
- determine which CSR initiatives they should address
- determine how they should proceed.

Business cycle
p. 2.34 McTaggart, Findlay & Parkin 1995 – the business cycle is the repeated but unpredictable fluctuations in economic, activity measured by changes in real gross domestic product (GDP) and other macroeconomic variables.

As an economy moves through each phase of the cycle, it affects the level of employment, industrial productivity and interest rates. Four phases: boom (rise in economic activity that lasts until a peak is reach), recession (fall from the
peak of economic activity back to the mean), depression (slide from the mean down to the through of economic activity) and recovery (rise from the trough of economic activity back to the mean).

Strategic planning follows strategic analysis.
- Definition of an organizational mission.
o Answers ‘what is our business?’ and ‘what should our business be?’
o refer to identity of key stakeholders (e.g. shareholders, customers and employees),
o refer to nature of organization’s business (e.. its outputs and market its service)
o refer to competencies and competitive advantages
o refer to the ways the organization will compete (e.g. rely on quality, innovation and low prices; commitment to customer care; policies on acquisition vs organic growth and the geographical spread of operations)
o refer to the principles of business the organization will employ (e.g. commitment to maintaining good working relationships with suppliers and employees, social policies such as equal opportunity or energy conservation, and
commitment to after-sales service and customer satisfaction)
- Definition of broadly defined goals that the organization seeks to achieve.
These goals should express the organization’s mission.
- The setting of organizational objectives. Should be quantitative measures – assessing actual performance

Strategy choice follows from strategic analysis and from clearly articulated mission statements, goals and objectives. It involves:

- Strategic option generation – identify variety of options strategies for creating organizational value consistent with organizational mission and goals.
E.g. increase market share through the introduction of new or improved products or services, achieve greater economies of scale by developing new export markets, focus on activities that generate the greatest value by disposing of or
outsourcing non-core or lower value-adding competencies, acquire other organizations to achieve horizontal or vertical integration.
- Strategic options evaluation – does it make full use of the organization’s existing strengths, remedy/avoid existing weaknesses, complementary to existing strategic position, acceptable to organization’s stakeholders.
o P. 2.37 Hambrick and Fredrickson 2001 – to test the quality of organization’s strategy:

 Opportunities. Strategy fit with what’s going on in the environment?
 Strengths. Does strategy exploit its resources and capabilities?
 Threats. Will the organization’s differentiators be sustainable?
 Weaknesses. Does organization have sufficient ‘resources to pursue’ its strategy?
 Fit. Are the elements of the organization’s strategy internally consistent?
 Reality check. Is the organization’s strategy capable of being implemented?

- Strategic selection – strongly influenced by the values of top management and the board. Strategy selection involves deciding:
o How organization competes (cost-leadership or differentiation strategy?
o Which product and market strategies the organization intends to pursue
o Institutional strategies (linkages with other organizations) that determine the method of growth (e.g. vertical integration)
- A first-class organizational strategy should:
o Provide inspiration (worthwhile and relevant goals)

o Help individual managers see the link between their own tasks and initiatives, and those being taken elsewhere in the organization
o Provide guidance to managers and enable them to fully evaluate the trade-offs and priorities of everyday work
o Create discretion for individual manager to manoeuvre by loosening some existing constraints and generating new options
o Facilitate communication = common language to understand and fluent in using.

p. 2.38 Porter 1980 competitive strategy = …[taking] offensive or defensive actions to create a defensible position in an industry, to cope successfully with….competitive forces and thereby yield a superior return on investment for the organization. Organizations have discovered many different approaches to this end, and the best strategy for a given organization is ultimately a unique construction reflecting its circumstances.

p. 2.39 three generic strategies that can deliver competitive advantage =
1. cost leadership (broad industry wide) – high market share and economies of scale. E.g. Target (clothing industry)
- scale of manufacturing facilities. If manufacturing facilities are set up for mass production, the organization will more readily realize economies of scale. If critical mass is low for an industry, many organizations could be expected to be able to afford the required investment and achieve low-cost production. On the other hand, where a high critical mass is difficult to achieve, cost leadership is more easily established.
- use of latest manufacturing technology.
- presence of a learning or cost experience curve. In high-technology industries and in industries that depend on human skills for product design and manufacture.- access to raw materials.
- focus on operational productivity. Cost reductions
- focus on value created from support activities. Research and development, sales force administration, promotion and distribution
- cost reductions or efficiencies in a specific segment of the industry value chain. Category killers. E.g. Toys R Us and Officeworks Implications:

Search products. Consumer can readily discern (tell the difference) e.g. cost, style, colour and size (hence low transaction costs)
- Pricing. To achieve high volumes of sales, if the price elasticity of demand for a product is high (demand fluctuates with price) the organization may need to keep prices low.
- Product quality.
- Advertising. Emphasizes price discounts or ‘unbeatable prices’.

Requires significant ‘up-front’ capital expenditure on top-quality and up-to-date manufacturing equipment and aggressive pricing and an initial willingness to bear large losses to build market share.

Drawbacks:
- Risk of technological change.
- Threat of offshore competitors whose major value chain costs are lower
- Threat by competitors to build up a high-price, high-quality brand image.
- Fluctuations in foreign exchange rates increase (decrease) the cost of locally manufactured products and reduce (increase) the cost of imports.

2. differentiation (broad industry wide) – unique product or service. E.g. Coca-Cola.
- Customers are prepared to pay a premium
- Customer loyalty to the organization’s brand will be built up.

Implications
- Must seek to provide some distinguishing characteristics (e.g. unique features, superior quality, creation of particular brand image or better service)
- Continually seek to innovate to stay ahead of rivals in image, quality or other key differentiating characteristics.

Advantages Cost leadership Differentiation
1) Barriers for new entrants Economies of scale
Brand loyalty and perceived uniqueness
2) Substitutes Less vulnerable to competitors in terms of cost
Customer loyalty
3) Customers Cannot drive down prices
No alternative because the product is perceived unique
4) Suppliers Flexible
Use higher margin (high sales value) to offset supplier price rises.
5) Industry rivalry Remains profitable
Brand loyalty should lower price sensitivity
Disadvantages
1) Technology Technological change requires additional capital investment or allows competitors to produce cheaper products.
Technology gives new sources of differentiation (good for the organization, bad if adopted by competitors)
2) Imitation
Competitors can learn via imitation
Imitation narrows differentiation.
3) Product characteristics Ignore product feature and marketing issues. Customer no longer require the differentiating factor
4) Price Increase in input costs can reduce price advantages Eventually customers become price sensitive.

3. focus (narrowly focused on a market niche and involves cost leadership or
differentiation) – geographical location (e.g. a city) or consumer demographic
(e.g. teenage girls)
Drawbacks:
- market segment or niche may not be big enough to provide organization with a profitable base for its operations or opportunities for growth.
- Become the same as main market.
- Being overtaken by industry-wide competitors with new products for that market segment
- ambience
- Variety-based position – variety of products
- Needs-based position – a particular group of customers. E.g. Ikea
- Access-based position – customer geography or customer scale – reach customers in the best way.

Strategy implementation
- P. 48 Frigo 2002 use three strategic competencies (innovation, operational excellence and branding) to create competitive advantage. These three
competencies need to be supported by five main management activities.
- 1. Partner strategically. Collaboration. E.g. market transactions, outsourcing, co-branding ventures, alliances and joint ventures.
- 2. Use portfolio theory. Invest in innovation. Balance highly risky strategic initiatives with more conservative incremental-return strategies by creatively using options strategy to develop new products and marketing formats.
- 3. Engage with employees. Employee engagement, and the commitment that comes from this emotional link to the organization, is strongly linked to customer satisfaction.
- Ritz-Carlton hotel chain:
o use of personnel-assessment system that focused on personal qualities and attitudes crucial to the organization’s success.
o Careful selection of right employees
o Rigorous training in customer service and process focus

o Use of guest-recognition database
o Empowerment of employees to take action to promptly resolve customer complaints.
- 4. Re-engineer the value chain. Module 4.
- 5. Communicate strategically.

- Describe the strategic management cycle
- Describe and carry out an environmental SWOT analysis
- Explain how value analysis can assist managers in identifying effective strategy

- Sound strategic management relies on analysis of:

o Industry (e.g. growth, profitability and market segmentation)
o Competitors (e.g. market share, pricing, costs and profitability)
o Technological, structural and/or social change (e.g. automation of manufacturing activity or the outsourcing of non-core activities)
o Drivers of customer satisfaction.
CPAs can only challenge the assumptions underlying forward estimates (e.g. economic growth, population growth, interest rates)
CPAs can provide some understanding of the risks involved (e.g. the organizational consequences if the strategy fails or the sales targets are not met)

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MODULE 3

Managing performance measures.
Characteristics of effective performance measures, including strategic and operational performance measures.

- Explain reasons for measuring performance
Reasons for performance measurement are linked to the broader considerations of strategic management and value creation introduced in module 2.

Performance measurement has 3 main roles in most organizations:
1. to support management decision-making;
- Performance measures help managers make better decisions by facilitating rational and fact-based decision-making.
- Decisions can be grouped as operational or strategic in nature, and they occur at all levels of an organization.
- The decision-making model has four parts,
i. A statement of objectives
ii. The identification of alternative strategies to achieve the objective
iii. An assessment of these strategies in terms of their costs, benefits and expected values
iv. The choice of the optimal decision.
- E.g. strategic decision on introducing a new product. Performance measures this decision might draw upon include:
i. Market share

ii. Manufacturing capability
iii. Time-to-market
iv. Competitors' costs and prices.
- E.g. operational decision on product quality problem.
Performance measures = number of times the problem has occurred and quality-related costs.
- Variance analysis = identify discrepancies between planned activities and actual results. = points to either an executional problem (inadequate implementation), planning problem (plans based on faulty assumptions or
irrelevant information about the organization or its environment) = key support for both the planning and control roles of management.
- E.g. installation of a new manufacturing plant. Management accountant assess the performance of the plant against the performance and cost forecasts made when the investment decision was made. = post-implementation audit.

2. to motivate managers and other employees;
- motivation is most effective when
i. objectives are measurable
ii. there are clear targets set for each measure
iii. targets are negotiated rather than imposed from above
iv. managers are held accountable for achieving targets.
- Individuals are motivated by quantitative and achieveable targets, when tying performance measures to individuals' remuneration
- Performance measurement systems can discourage undesirable behaviour. Less likely to take inappropriate risks in pursuing own private interest.
- Badly designed performance measures can motivate dysfunctional behaviour.

3. to communicate with, or signal to, stakeholders.
- The financial report is a signal prepared by management for shareholders about the performance of management in carrying out the operations of the organization (profit and loss) and in building the assets of the organization (balance sheet).
- The key performance measures presented in financial reports are the net profit, or earnings per share, and net assets.
- E.g. signaling = management arguing for resources for their unit. Performance measures can be used to support such claims.
- Signaling = X support decision-making, X motivate.
- Signaling = affect decision-making
Good performance measurement systems will contribute to:
- higher-quality decision-making at both the strategic and operational levels
- motivating employees to achieve organizational goals
- obtaining the support of stakeholder groups.

Understand the relationship between strategic management and performance measurement.

Strategy = interface between external environment and the organization's activities
- Corporate strategy – relates to kind of business and industry
- Competitive strategy – how the organization is going to compete within its
chosen industry and markets
- Operational strategy – tactical decisions about how the organization is going to deliver its competitive strategy.
Management control systems – provides an interface between the strategy of the organization and the organization's performance.
p. 3.8 Anthony 1965 – describe MCS as the process by which managers ensure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives.

p. 3.8 Abernethy and Chua 1996 – describe MCS as a system that comprises a combination of control mechanisms designed and implemented by management to increase the probability that organizational actors will behave in ways
consistent with the objectives of the dominant organizational coalition.
MCS as a package of controls containing elements e.g.
- traditional budgets
- management by objective-type systems (MBOs)
- policies and procedures
- non-financial performance systems e.g. balanced scorecards (BSCs) and value-based controls (Kaplan & Norton 1996, Simons 1995, Abernethy & Chua 1996, Alvesson & Karreman 2004)
Accounting information system (AIS) is only part of the MCS of an organization.
AIS must function as a fully integrated part of the MCS.

Readings 3.1 discuss performance measures, performance management
Christopher Mcnamara and Steven Mong Marr and Schiuma 2003

p.1 – at the beginning of 2003, more than 12 million performance management websites were in existence. The topic has spawned research from diverse areas, spanning accounting, economics, human resource management, marketing, psychology
and sociology. Strategic performance measurement.
Ittner 2003
p. 1 – strategic performance measurement
p. 2 – criticize modern practice's design of non-financial performance measures.

p. 2 – observed that
1. firms have fundamental difficulties in communicating strategies.
2. firms have difficulty in establishing the real drivers of organizational functioning and cannot distinguish between 'noise' and cause-and-effect results.

3. performance targets are often inappropriate
4. measures employed are not always 'valid' or 'reliable'.
They argue that firms need to spend more time understanding the linkages between strategy and measures to improve their performance management systems.
p. 7 reassessment of measures should be ongoing and regular.
p. 1 Bourne et al 2003 – corporate performance management.
p. 1 Shutler and Storbeck 2002 – extend beyond the measurement of performance to issues of how measurement may facilitate organizational functioning in real decision-making settings.
p. 1 Kaplan and Norton 1996 – balanced scorecard = a starting point to build a performance management system
p. 13 Krause 2003 – the scorecard did not inform the development of corporate mission and specific corporate goals, did not articulate a clear strategy for delineating organizational decision rights, managing performance outcomes or
mitigating key operational and strategic risks.
p. 2 Sinclair and Zairi 2001, Ballou et al 2003 – mixture of financial and non-financial measures in a performance measurement system for both profit and non-profit organizations
p. 2 Langfield-Smith 2003 – benefits of balanced performance measurement system:
short-term focus, emphasis on narrow groups of stakeholders and limited guidance for future actions.
p. 2 Jalbert and Landry 2003 – firms can employ a number of financial measures
(e.g. economic value added or tracking stock) or even a mixture of frameworks
(e.g. BSC, activity-based management, the six sigma model (see Chartered

Institute of Management Accountants 2002) and the European Foundation for Quality Management excellence model
p. 2 Lohman et al 2004 – PMS success = ability to customize and refine its system. Use BSC concept on six perspectives instead of the traditional four.
In addition, the PMS had the capacity to centralize performance measurement throughout the operation with consistent and standardized measures. To keep the system up-to-date and relevant for decision-making, it was reviewed monthly, and yearly redesigns were also carried out.
p. 3 De Waal 2004 – a successful PMS is depend on how employees interact with the system.
p. 3 Nohria et al 2003 – proposed that creating a success culture, where employees are empowered and involved in decision-making, is one of the four primary management practices that can significantly affect a company's performance.
p. 3 Malina and Selto 2001 – positive outcomes are generated by better strategic alignment of employees and better motivation.
p. 3 Miller and Israel 2002 – relationship between performance management and risk management and organizational infrastructure
p. 3 Rutter 2002 – ability to assess risks in performance management can be a source of competitive advantage in investment banking.
p. 7 Simons 2000 – risk management systems are becoming increasingly important as a level of organizational control.

Case study: 1. Oz Bank – the use of Fastrack 2. Defining Corporate Performance at AsTelco 3. Building a Performance Management Architecture at SEA Bank.
- At the highest level, we find that performance measurement is a necessary but insufficient condition for effective performance management.
- The case studies support the usefulness of broad-based performance measurement frameworks capturing financial and nonfinancial performance metrics.
- Managers from Oz Bank, AsTelco and SEA Bank all indicated improved decision-making capabilities associated with the introduction of greater measurement diversity.
- SEA Bank – performance management is crucially supported by organizational culture.
- Oz Bank – developing a consistent approach to measuring project effectiveness has enhanced the ability of the organization to allocate scarce resources, track progress against targets and communicate successes to the market.
- Oz Bank – performance measurement / management system was an iterative approach, periodically realigning the system with the information needs of the business.
- AsTelco – managers were placed at the centre of the design process for the introduction of a new balanced scorecard-based management system.
- AsTelco – implementation of scorecard – clarify and quantify corporate strategy, aligning decisions made at the operational periphery to the goals formulated at the corporate centre.
- Sea Bank – clearly articulating divisional targets, delineating decision rights and strengthening the framework of consequence management has empowered employees, constituting a 'performance culture' within the bank.

Reading 3.2 discuss performance measures in supply chains.
Kim Langfield Smith and David Smith
p. 1 Gunasekaran et al 2001, Elmuti 2002 – Supply chain management (SCM) provides organizations with effective ways of responding to supplier and customer requirements and achieving improved organizational performance in the face of mounting technological and competitive pressures. These outcomes are achieved as SCM focuses on the development of cooperative and trusting relationships between supply chain partners. This often leads to partners working on joint solutions to problems and on ways to improve efficiency across the supply chain
p. 1 NRC 2000, LaLonde 1997, Brewer and Speh 2000 – benefits of SCM include cost savings through reductions in inventory, reduction in transaction costs across the supply chain, faster response to changes in market demands, lower product development costs and increased competitiveness and profitability.
p. 1 Lambert and Pohlen 2001, Brewer and Speh 2000, NRC 2000 – one of the important factors in enhancing supply chain performance is the development of appropriate performance measures.
p. 2 Lambert et al 1998 – SCM is the integration of key business processes from end user to original suppliers that provides products, services and information that adds value for customers and other stakeholders
p. 2 Elmuti 2002, Yongdahl 2000 – SCM brings together suppliers, distributors and customers into one cohesive process.
p. 2 Quinn 1997 – companies participating in MIT's Supply Chain Management Program recorded a 17 per cent increase in sales revenue as a result of improving their SCM programs.
p. 3 Croxton et al 2001 – through the integration of processes, and the realization that activities in first-tier or even more remote suppliers or customers can affect a firm's performance that performance improvements can be achieved.

p. 3 AFFA 2004 – segmentation of supply-chain development and management for genetically modified (GM) crops
p. 2 NRC 2000, LaLonde 1997, Brewer and Speh 2000 – benefits of SCM:
- cost savings from reductions in inventory
- reduction in transaction costs from information sharing and the introduction of electronic systems
- reduction in supplier redundancy
- reduced friction, fewer barriers and fewer resources wasted on non-value-adding processes
- increased functional and procedural synergies
- faster response to changing market demands
- lower cost of manufacturing operations
- less investment in excess manufacturing capacity
- shorter product development cycles and lower product development costs
- increased competitiveness and profitability
p. 4 Chan and Qi 2003, Gunasekaran et al 2001, Holmberg 2000 – problems in performance measures in supply chains:
- measures are not always connected to strategy
- the lack of a balanced approach to integration between financial and non-financial measures
- too many performance measures used, with the number of measures tending to increase over time
- no clear distinction between measures at the strategic, tactical and operational levels
- a lack of ‘systems thinking’ across the supply chain = focus is on individual entities in the supply chain, rather than on the supply chain as a whole
- the difficulty in sustaining a supply-chain context, sot that local optimization is often the focus

Difficulties in designing supply-chain measures that underlie these problems include:
- designing appropriate metrics across multiple organizations can be complex, particularly as some partners may participate in several supply chains.
- Consistent definitions of data and measures in the supply chain may not exist and may be difficult to achieve
- Smaller organizations may not have the time, finances, equipment or information to participate in the analysis
- Medium sized organizations may not have skills to convert the information that they have into meaningful measures
- Partners’ information systems may differ in terms of sophistication, complexity and integrity, making it difficult to assess overall supply-chain performance
- Some partners are unwilling to share information and performance outcomes with others in the supply chain
- Managers in some companies have difficulty

- Identify characteristics of effective performance measures
- Identify characteristics of effective performance measurement systems including the balanced scorecard
- Distinguish between strategic and operational performance measures
- Explain approaches to benchmarking performance against best practice
- Identify the limitations of benchmarking and the appropriate strategies for overcoming these limitations
- Describe the link between motivation and performance measurement and how performance measurement can affect the organization.
- Reasons for measuring performance and outline the characteristics of effective performance measures.
Other characteristics that contribute to good performance skills, such as
knowledge and environmental effects are also highlighted.
- Critically examine strategic and operational performance measures.
- Discuss various techniques for benchmarking performance against best practice

- Limitations of benchmarking and the appropriate strategies for overcoming these limitations.
- Discuss how the outcomes of performance measures affect the whole organization.
- Discuss the design of compensation systems